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SUBJECT: MOLDOVA'S 2010 STATE BUDGET

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REF: 09 Chisinau 1003

[1](#)1. (SBU) SUMMARY: The new four-party Alliance for European Integration (AIE)-led Parliament approved the 2010 state budget for the Government of Moldova (GOM) on December 23, 2009. The GOM projects an increase in revenues, an increase in expenditures, and a deficit about 11 percent less than in the 2009 budget. The budget includes realistic macroeconomic calculations for 2010, and tax increases on tobacco, alcohol and luxury items while granting relief to the agricultural sector for capital investments. MPs from the Party of Communists (PCRM) boycotted the budget votes. END SUMMARY.

#### 2010 BUDGET BIG PICTURE -----

[1](#)2. (U) The Parliament approved the state budget on December 23, 2009 and the GOM made it public on December 29, 2009. The 2010 budget forecasts revenues of Moldovan Lei (MDL) 15,318.34 million (roughly USD 1.22 billion). This target is 17 percent greater than 2009 revenues of MDL 13.1 billion projected in the December 3, 2009, adjustments to the 2009 state budget (see reftel). The GOM projects expenditures to be MDL 19,454.52 million (USD 1.55 billion), 9.6 percent greater than the final projection for 2009. The budget deficit is projected to be MDL 4.1 billion (USD 330 million), MDL 512 million less than the 2009 deficit target.

#### 2010 BUDGET MACRO ASSUMPTIONS -----

[1](#)3. (U) The budget is based on the following assumptions:

-- Real annual GDP will recover from a nine percent decline in 2009 and grow 1.5 percent in [1](#)2010.

-- Average annual inflation will be five percent for 2010. The previous PCRM-led GOM originally projected inflation to be 9.5 percent in 2009. The new GOM's revised 2009 estimate projected inflation to be 0.5 percent for 2009. Actual inflation for 2009 was a record low of 0.4 percent, the lowest inflation rate in Moldova since the country declared independence in 1991.

-- The new GOM calculated the average exchange rate to be 12.53 MDL per USD for the 2010 budget.

The previous GOM's original projection for 2009 was 9.12 MDL per USD, but the exchange rate at the end of 2009 was 12.20 MDL per USD.

-- The new GOM budget projects that export growth will increase by 12 percent and imports by 15 percent in 2010, resulting in a negative trade balance of USD 2,225 million. Exports declined by 20 percent and imports over 30 percent in 2009.

-- Real annual industrial growth will be three percent and agricultural growth two percent in 2010.

#### THE 2010 NATIONAL PUBLIC BUDGET

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14. (U) Moldova's National Public Budget (NPB) consists of four separate budgets: the state budget, the state social insurance budget, the mandatory medical insurance fund, and local budgets. The GOM estimates an overall 2010 NPB of MDL 25 billion (USD 2 billion) and expenditures of MDL 29 billion (USD 2.3 billion). The state budget revenue component represents over 61 percent of the total NPB, followed by the social insurance budget at 23 percent of the total, local budgets at 10 percent, and the medical fund at around six percent.

#### 2010 REVENUE

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15. (U) In 2010, the GOM projects that 86.5 percent of state budget revenues will come from domestic sources and 13.5 percent from the European Union. State revenues rely heavily on indirect taxes such as VAT, excise taxes and customs duties. These taxes provide approximately 72 percent of total budget revenues. Direct taxes - income and corporate - have never been a major source of revenues in Moldova; their total contribution will be less than one percent of total revenues in 2010. (Note: A new corporate tax law with a zero rate on reinvested profit came into effect January 1, 2008, considerably reducing the revenue the GOM collected from this source. The GOM, supposedly in compliance with the requirements for a new IMF agreement, has indicated plans to eliminate this benefit to businesses in 2013. End note.)

#### NEW DEVELOPMENTS

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16. (U) In order to increase revenues, the GOM introduced changes in its fiscal policy for 2010, including tax increases, primarily in sin and luxury taxes. The excise tax was increased on tobacco products (cigars 35 percent, non-filter/plain cigarettes 45 percent, filter/-tipped cigarettes 300 percent), gasoline 50 percent, perfume and jewelry 200 percent, beer 25 percent, alcoholic beverages 3.1 percent and electronics 3.1 percent. The new GOM will increase VAT on imported natural and liquefied gas from five to six percent. The new budget narrows VAT reimbursement for capital investments to the extraction industry, and wholesale and retail trade sectors. The new budget grants the agricultural sector some VAT relief by reducing the basic tax rate from 20 percent to eight percent for all primary agricultural products sold in Moldova and allowing VAT reimbursement for the purchase of agricultural and forestry tractors. The budget also includes increases in road taxes and increased maximum tax rates for local taxes on land improvements, commerce and services.

#### MAJOR EXPENDITURES

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¶7. (U) Major GOM expenditures for 2010 are transfers to local government budgets (MDL 4.16 billion or 21.4 percent of total expenditures), social security and social assistance (MDL 3.52 billion or 18 percent), health care (MDL 2.49 billion or 12.8 percent), public education (MDL 1.90 billion or 9.8 percent), transportation and communication (MDL 1.23 billion or 6.3 percent), law enforcement and national security (MDL 1.03 billion or 5.3 percent), and state agencies (MDL 1.03 billion or 5.3 percent for Parliament, Ministries, National Bureau of Statistics, etc.). Other major expenditures include internal and external debt servicing (4.1 percent), agriculture, forestry and water resources (4 percent), and other smaller expenses.

ONE-SIDED DEBATE IN PARLIAMENT  
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¶8. (U) The representatives of the four AIE coalition parties and four independent MPs who recently left the Communist faction voted for the 2010 State Budget Law. The PCRM opposition boycotted both the first, and second and final votes on the budget. The PCRM suggested a number of changes to the budget, primarily on the expenditure side for social programs, which the AIE coalition did not accept. Prime Minister Vlad Filat defended the 2010 budget, stating that it was based on existing realities. He said that he would like to have a better and larger budget, but the GOM could make only those budget commitments that it was able to fulfill.

COMMENT:  
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¶9. (SBU) Within three months of assuming office in late September, the new GOM has reached preliminary agreement with the IMF on a new program, adopted substantial adjustments to the 2009 budget, and prepared and passed the 2010 budget. The ruling coalition has engaged with donors and made hard choices in renewing its partnership with the IMF and in preparing a realistic budget. However, with possible parliamentary elections in the fall, the GOM will need to maintain discipline in the face of PCRM efforts to stoke voter dissatisfaction.

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